

## Code of Conduct Assessment

Supported by SIDBI



### *Need Livelihood Microfinance Private Limited*

**Comprehensive Grade Assigned: C3**

**Date assigned: October 15, 2018**

Scale	C1	C2	C3	C4	C5
MFI 1					
MFI 2+					
MFI 2					
MFI 3+			<b>M3+* C3</b>		
MFI 3					
MFI 4+					
MFI 4					
MFI 5					

\*Assigned by ICRA in Oct 2018

The MFI obtains code of conduct assessment grade of **C3**. This indicates that the MFI has an average performance on code of conduct dimensions.

### Rationale

<b>Code of Conduct Assessment Grade</b>	Need Livelihood Microfinance Private Limited obtains " <b>C3</b> " as its Code of Conduct Assessment Grade which signifies average performance on COCA dimensions.
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*Assessment on Code of Conduct has been done on the indicators pertaining to **Transparency, Client Protection, Governance, Recruitment, Client Education, Feedback & Grievance Redressal and Data Sharing**. Some of these indicators have been categorized as Higher Order indicators consisting of indicators on **Integrity and Ethical Behaviour and Sensitive Indicators**.*

### **Conflict of Interest Declaration**

ICRA has not been involved in any assignment of advisory nature for a period of 12 months preceding the date of the comprehensive grading. None of the employees or the Board members of ICRA have been a member of the Board of Directors of the MFI during for a period of 12 months preceding the date of the comprehensive grading. The analysts certify that they do not hold any shares of the company being rated and the analysts do not have any conflict of interest with reference to the company being rated.

### **Disclaimer**

The objective of the Code of Conduct assessment exercise is to assess the extent of adherence to common Code of Conduct by MFIs during the period of assessment. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the graded entity. ICRA however has not conducted any audit of the graded entity or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than grading to the entity graded. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.

### **Code of Conduct Assessment scale and definitions**

<b>C1</b>	MFIs with this grade have <b>excellent</b> performance on Code of Conduct dimensions
<b>C2</b>	MFIs with this grade have <b>good</b> performance on Code of Conduct dimensions
<b>C3</b>	MFIs with this grade have <b>average</b> performance on Code of Conduct dimensions
<b>C4</b>	MFIs with this grade have <b>weak</b> performance on Code of Conduct dimensions
<b>C5</b>	MFIs with this grade have <b>weakest</b> performance on Code of Conduct dimensions

<b>MFI's profile (June 30, 2018)</b>	
Name of the MFI	Need Livelihood Microfinance Private Limited
Legal form	NBFC-MFI
Institution Head	Mr. Anil Kumar Singh
Year of starting microfinance	2005 (Need NGO), 2015 (NBFC-MFI operations)
Branches	41, 51 (as on September 30, 2018)
Active borrowers	29,576
Total staff	205
Operational area	Bihar, Uttar Pradesh, Uttarakhand and West Bengal
Visit of the Assessment team	Bihar and Uttar Pradesh
Correspondence address	38/39, Neel Vihar, Near Sector 14, Power House, Indira Nagar, Lucknow-226016

<b>Details of Loan Products (September 30, 2018)</b>				
<b>Product</b>	<b>Description</b>	<b>Loan size (Rs.)</b>	<b>Interest Rate</b>	<b>APR(Interest Rate and Processing fees)</b>
Start-up loan (Suruwati loan)	JLG	10,000-15,000	12-18 months	24.80% + 1% of loan amount + GST @18%
Livelihood loan (Aajeevika loan)	JLG	15,000 - 30,000	12-24 months	24.80% + 1% of loan amount + GST @18%
Enterprising loan (Udayami loan)	JLG	30,000 - 50,000	24 months	24.80% + 1% of loan amount + GST @18%

#### Ownership/Equity Structure

<b>Shareholding Pattern (September 30, 2018)</b>	
<b>Shareholder</b>	<b>% Shareholding</b>
NEED Financial Inclusion Trust	72.97%
NEED Group Employees' Share Trust	13.36%
Mr. Anil Kumar Singh	9.78%
Mrs. Pushpa Singh	1.95%
Mr. Vivek Chauhan	1.55%
Mrs. Shruti Richa	0.39%
<b>Total</b>	<b>100.00%</b>

<b>Board of Directors</b>			
<b>S. No.</b>	<b>Name</b>	<b>Position</b>	<b>Brief profile</b>
1	Mr. Anil Kumar Singh	Managing Director	He founded NLMPL (Need Livelihood Microfinance Pvt Ltd) in the year 2015 after being a part of the Need NGO for around 10 years. In the mid-80s Mr. Singh joined (IIM) Ahmedabad which is one of the pioneer institutes in India as Senior Research Fellow to take-up a specific action research project in remote tribal villages of India. In 1995, he gave up his job as the head of a premier government-training institute to set up his own organization with the mission of upliftment of weaker section of Society. Mr. Singh has been selected as a lifetime member of the Ashoka Global Fellowship Program and is a Fellow of the UK based initiative Management in Development (MIND). He has been awarded as "Best Citizen of India" in recognition of his exceptional calibre and outstanding performance in the social sector.
2	Mr. Govind Prasad Gupta	Director	He has a 30 years of experiences in banking sector as Sr. Manager. He carries grassroots driven Internal Auditing cum Monitoring experiences in exclusive areas of micro-finance for the last 5-6 years. He has inter-faced his micro-finance Auditing Experience with diverse profile of financial institutions of both national and international stature like SIDBI, NABARD, IFC, KFW, Oiko Credit, World Bank, DFID sponsored PSIG-SIDBI project and several financial institutions.
3	Mr. Lalit Srivastava	Independent Director	M.Sc. (Physics) from University of Allahabad & CAIIB, he brings extensive regulatory knowledge from his experience as a Banking Ombudsman General Manager- In Charge of Department of Non-Banking Supervision (DNBS), Chandigarh. He has also served as General Manager and Head, Currency Management Department, Chandigarh, General Manager in -Charge, DBS, New Delhi, and General Manager, DBOD Central Office, Mumbai.
4	Prof. Prakash Singh	Independent Director	He is Ph.D. from Birla Institute of Technology & Science, Pilani, Rajasthan), MBA from Lucknow University (Department of Management Studies), B.Tech (Mech Engg, Harcourt Butler Technological Institute, Kanpur). He has worked with Escorts Yamaha Motors Ltd as Engineer- Vendor Development and with Kotak Mahindra Primus Ltd as Officer- Business Development. He is currently a professor at IIM Lucknow and also the Chairman of Placements for the Executive MBA (IPMX) at Noida Campus.
5	Mrs. Shruti Richa	Director	She has done her BA Economics from IT College, Lucknow, 2 years Certified Course on Financial Analyst (a joint programme of NITIE & CRISIL), Mumbai .She has 2 years' experience of working in CRISIL, HQ, Mumbai as "Credit Analyst" rating several NBFCs and associated companies. Prior to this, she has also a year experience in Financial Technology India Ltd. as Assistant Manager.
6	Mr. Vivek Chauhan	Director	He has worked as an Analyst (Commodities & Rates Index Structuring) with Nomura Financial Services where he developed & launched 2 flagship investment strategies in rates & commodities by analysing market anomalies. He also reduces operational work by 60% by automated portfolio calculation, allocation and marketing material generation. He has worked with Deutsche bank, Corporate & Investment Banking Centre, Mumbai, in September 2013 and then on to become Vice president/ Associate (Quantitative investment Strategies (QIS)& Structured Products), Deutsche Bank, Global Investment Solutions, London, UK, where he managed investment allocation



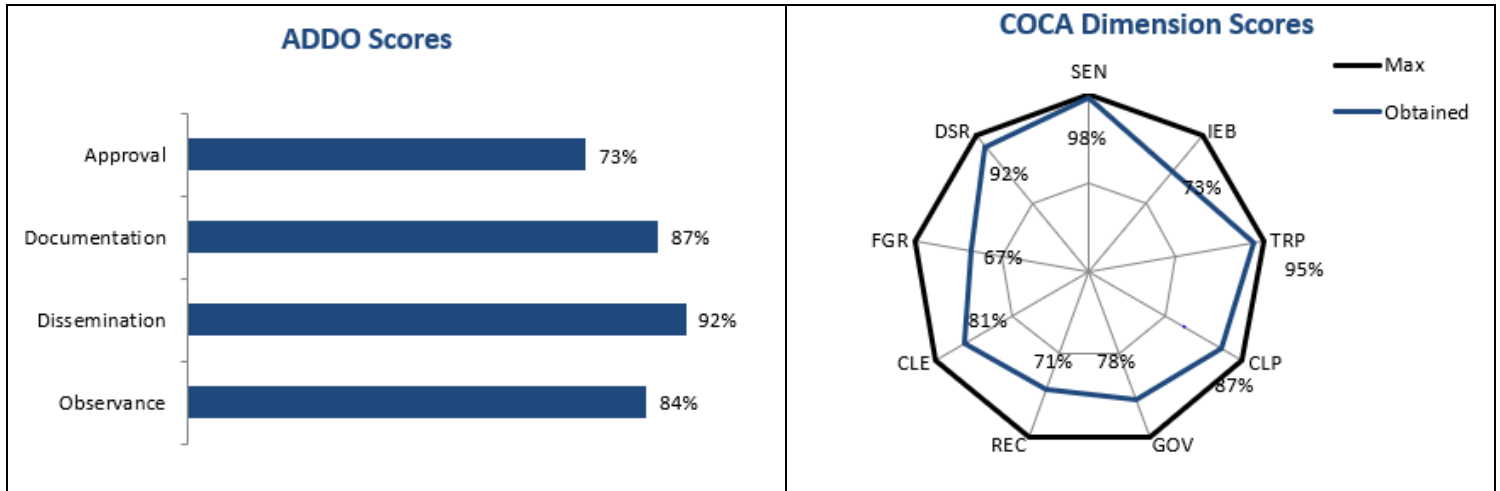
<b>Key Performance Ratios</b>		
	<b>March 2018</b>	<b>June 2018</b>
Portfolio at Risk (>30 days)	1.02%	1.19%
Capital to Risk Weighted Capital Adequacy Ratio (CRAR)	37.64%	22.10%
Operating Expense Ratio (OER)	8.50%	6.41%
Funding Expense Ratio (FER)	14.95%	14.81%
Write-offs to average portfolio	0.96%	0.0%
Return on Assets (RoA)	1.08%	1.03%
Return on Equity (RoE)	2.89%	4.30%
Active borrowers per staff	218	235
Active borrowers per branch	695	721

**Compliance with RBI's Directions for MFIs**

<b>S. No.</b>	<b>RBI's Direction</b>	<b>Status</b>
1	85% of total assets to be in the nature of qualifying assets	Complied
2	Net worth to be in excess of Rs5 Crore	Complied
3	Income of borrower not to exceed Rs100,000 in the rural areas and Rs160,000 in the urban and semi-urban areas*	Complied. Income declarations received from clients met the RBI criteria
4	Loans size not to exceed Rs60,000 in first cycle and Rs100,000 in subsequent cycles*	Complied
5	Total indebtedness of the borrower not to exceed Rs100,000 (excl medical and education loans)*	Complied
6	Tenure of loans not to be less than 24 months for loan amount in excess of Rs30,000, with prepayment without penalty*	Complied
7	Pricing guidelines are to be followed	Complied. Interest Rate charged is 24.80%
8	Transparency in interest rates to be maintained	Complied
9	Not more than two MFIs lend to the same client	Complied. NLMPL does not lend as a third lender as per policy.

*\* For the assets classified as qualifying*

## Section 1: Code of Conduct Assessment



SEN: Sensitive Indicators; IEB: Integrity and Ethical Behavior; TRP=Transparency; CLP=Client Protection; GOV=Governance; REC=Recruitment; CLE=Client Education; FGR=Feedback and Grievance Redressal; DSR=Data Security

### Code of Conduct Assessment Summary

NLMPL's performance on the code of conduct takes into account MFI's strong performance on Transparency, Client Education, Client Protection and Data Security. The overall score is further enhanced by NLMPL's high score on sensitive parameters. There is scope of improvement across Feedback & Grievance Redressal, Recruitment and Governance parameters.



### **MFI Strengths and weaknesses pertaining to Code of Conduct**

<b>Strengths</b>
<ul style="list-style-type: none"> <li>• NLMPL has a dedicated internal audit team responsible for branch audits. The head of the audit committee is an independent director and reports to the Board. The board is chaired by a company executive and comprises of 6 board members including two independent directors</li> <li>• The company has formed a connect with the borrowers and runs many free-of-cost social initiatives for its borrowers.</li> <li>• The operational staff is punctual and courteous towards the borrowers with none of the borrowers complaining about the operational staff's behavior.</li> <li>• The company displays the interest rate charged on its loans and charges a single, effective annual rate to its borrowers of 24.80% on group loans. The processing fees charged is 1.00%, which is in line with the prescribed guidelines.</li> <li>• All borrowers need to undergo a mandatory two-day CGT training and one day GRT for where they are informed about the products offered by the company, terms and conditions, responsibilities and so on.</li> <li>• No instances of collateral or security deposit being taken from the borrowers were observed. The same has been documented in the operational manual as well. Interviewed branch managers were aware regarding the guidelines. An external CA agency tracks company's compliance on the same every quarter. In addition, the internal audit department conducts concurrent audit of its branches at regular intervals.</li> <li>• NLMPL undertakes review of its margin regularly and abides by the RBI pricing guidelines certified by an independent CA agency on a quarterly basis.</li> <li>• The MFI as a policy collects Aadhar card as mandatory identity proof for all loan cycles. All fresh disbursements are being made in the Aadhar-linked bank accounts of the customers</li> <li>• NLMPL shares data with all 4 bureaus on a monthly basis. Review of a sample of loan files indicated that credit bureau checks had been made not more than 15 days prior to disbursement in all cases. However, the company does not have documented guidelines regarding the same.</li> <li>• During the assessment, no case was seen wherein a commission was paid to an agent/field officer to get a loan.</li> </ul>

<b>Weaknesses</b>
<ul style="list-style-type: none"> <li>• Of the ADDO (Approval, Documentation, Dissemination and Observance) parameters, the company scores lowest on approval indicating that the company needs to improve on what is reported to the board. Annual review of Code of conduct compliance report and credit bureau checks post disbursement and having granularity in minutes on what is discussed would help the company increase score on the same. The company indicated that it has started with the practice of presenting the Code of Conduct Compliance Report before the Board during Q1FY2019, a subsequent annual review of Code of Conduct Compliance Report shall aid in increasing the said score.</li> <li>• While all Branch Managers' are given trainings but their awareness with respect to RBI directions regarding loan sizes, loan tenures, loan purpose, income level of borrowers and KYC norms was moderate as observed during field visits. The experienced staff is aware of the norms, but the new joiners are still gathering knowledge and experience.</li> <li>• Contact details of the SRO is not displayed on the loan cards but was seen in some branches. As a result, the client's awareness of the grievance redressal mechanism of MFIN was low. However, nearly one-third of the clients interacted were aware of the grievance redressal mechanism of the company. Although the contact number of the SRO was displayed at some of the branches, the same has been mentioned in the new Loan Cards that shall be distributed among the borrowers in the new loan cycles.</li> <li>• As per the board minutes shared by the company, it complies with Sa-dhan's code of conduct, which has a policy restricting posting of new joiners at the same geography where they were associated with the previous organization (if recruited from an MFI); however, the company does not have any formal policy regarding the same.</li> </ul>

## Significant observations - Higher Order Indicators

### 1. Integrity and Ethical Behavior

<b>Strengths</b>
<ul style="list-style-type: none"> <li>• NLMPL has a structured format of the code of conduct compliance report and the same is presented to the Board. However, the scope of the same and frequency of presentation in the board is moderate.</li> <li>• The audit committee has reviewed the adequacy of the staff of internal audit committee and the scope of the internal audit in the past one year.</li> <li>• NLMPL has a board approved policy of recovering delinquent loans and most of the field staff was aware of the same.</li> <li>• To safeguard its employees, the company does not recover any shortfall in collections from its employees unless in proven case of fraud, as mentioned in the HR policy. The employees also confirmed that they have never made up for any shortfall in collections.</li> <li>• Staff members confirmed that they had received training from the senior management on communication provided to new clients and regarding RBI guidelines. In addition, training on educating clients on the avenues related to feedback and grievance redressal is given</li> <li>• The MFI has provided training to its field staff with regard to conducting client meetings, collecting repayments and recovering overdue loans.</li> <li>• The board of NLMPL has reviewed the recruitment policy over the past one year.</li> <li>• Information on the feedback and grievance redressal mechanism forms a part of training of the clients. The company has a dedicated officer for maintaining the track of complaints and the officer presents the update on the complaints to the senior management.</li> </ul>

<b>Weaknesses</b>
<ul style="list-style-type: none"> <li>• While the company is maintaining a record of the complaints of the clients and the same is shared with senior management, the representation of the feedback grievance redressal report in the board meetings is moderate. The company plans to strengthen the grievance redressal reporting to the board by presenting results/findings in the subsequent board meeting.</li> <li>• As per the internal audit or management assurance report format and policies reviewed, while the company takes responsibility of the staff behavior, the stated policies does not check the field staff's behavior of visiting borrowers at odd hours or forcibly entry into client property without legal orders. However, no such instance has been reported.</li> <li>• The company does not have a stated policy of providing notice period to employees whose service is terminated. In other cases, there is documentary evidence with regard to MFI honoring notice period for all employees who have left the organization.</li> <li>• In the sample files checked, nearly 50% files had did not have the no objection certificate (NOC) nor relieving letters for employees who had given sufficient notice period before quitting.</li> <li>• The MFI policy specifies incentive related to the collection of overdues and the incentives are not linked to the monthly enrolment targets.</li> <li>• Contact details of the SRO is not displayed on the loan cards but was seen in some branches. As a result, the client's awareness of the grievance redressal mechanism of MFIN was low. However, nearly one-third of the clients interacted were aware of the grievance redressal mechanism of the company. Although the contact number of the SRO was displayed at some of the branches, the same has been mentioned in the new Loan Cards that shall be distributed among the borrowers in the new loan cycles.</li> <li>• Awareness of the clients was low on the grievance redressal mechanism of the SRO. However, most of them were aware of the feedback and grievance redressal mechanism of the company.</li> </ul>

## 2. Sensitive Indicators

<b>Strengths</b>
<ul style="list-style-type: none"> <li>• Most of the borrowers were aware of the amount and number of instalments they were required to pay</li> <li>• No instances were observed where a borrower had been made to pay for a service or product as a precondition for loan.</li> <li>• No instances of fine or penalty being levied or collected from the borrowers were observed. The borrowers also confirmed that no fine has been paid by them.</li> <li>• No instances of collateral or security deposit being taken from the borrowers came to notice during the field visit.</li> <li>• During the field visits, ICRA did not come across incidence of borrowers being charged processing fee in excess of 1%.</li> <li>• The company has a single product: Joint Group Loans (JLG). There is no variation in the interest rates for any ticket size loans. The MFI charges 24.80% p.a. (on reducing balance) on its group loans.</li> <li>• NLMPL undertakes review of its margin quarterly. The company also gets compliance with RBI pricing guidelines certified by an independent CA agency on a quarterly basis.</li> <li>• NLMPL communicates the terms and conditions through its loan forms and loan cards in vernacular. It has a formal loan agreement in place that is filled by the company representatives in presence of the client and her husband/co-borrower.</li> <li>• During interviews with borrowers, loan utilisation was found to be in line with RBI's directions. Most of the loans were taken for income generation purpose.</li> <li>• The loan forms have the cashflow analysis and loan amount eligibility to access the economic status and repayment ability of the client.</li> <li>• NLMPL follows a monthly repayment cycle and most of the borrowers were comfortable with the existing repayment schedule.</li> <li>• NLMPL has a clear policy regarding documents to be collected for identity and address proof. The company mandates collection of Aadhar Card as necessary KYC. The copy of KYC collected from clients will need to be verified with original documents by the Branch Manager. Not a single instance was observed where for a loan classified as qualifying microfinance loan, identity proof (with a verified with original declaration) had not been obtained.</li> <li>• No instances were observed where clients were charged additionally for insurance, apart from premium payable.</li> <li>• Review of loan files indicated that credit bureau checks had been made not more than 15 days prior to disbursement in all cases.</li> <li>• Not a single case was seen where indebtedness of borrower was outside the limits stipulated by RBI at the time of disbursements.</li> <li>• NLMPL has a documented policy regarding documents to be collected for identity proof. The company requires borrowers to mandatorily have both Aadhar Card. The same is collected from all borrowers in every loan cycle.</li> <li>• Interviews with borrowers revealed no instances of the following: <ul style="list-style-type: none"> <li>○ Abusive language or threats</li> <li>○ Visiting borrowers at odd hours</li> <li>○ Forcible entry into dwelling and forced seizure of property without the legal orders.</li> </ul> </li> <li>• All clients revealed that they receive accurate receipts for all transaction.</li> <li>• The loan agreement forms take consent from clients that her data can be shared with credit bureaus.</li> <li>• The company is a member of all four credit bureaus. It shares data as per the requirement of the credit bureau in the respective format.</li> <li>• There were no adverse observations in the Auditor's report for the year 2017-2018 regarding accounting standards followed by the MFI.</li> </ul>

## Significant observations – Building Blocks

### 1. Transparency

<b>Strengths</b>
<ul style="list-style-type: none"> <li>• NLMPL has adopted the guidelines and directions issued by Reserve Bank of India (RBI) with respect to vernacular language being used in communication, use of only single and effective interest rate, issue of receipt for any payments and disclosure of terms and conditions to the client. The same have been documented in manuals.</li> <li>• Circulars with most recent RBI directions were available in the branches visited.</li> <li>• The branch managers and staff members were aware of the need to communicate in a transparent manner with the borrowers and were given training on the same.</li> <li>• The borrowers confirmed that they had been communicated all terms and conditions such as interest rates, loan tenure, processing fee etc during the group training prior to disbursement.</li> <li>• The field staff interviewed was aware of the terms and conditions that need to be communicated to the borrowers.</li> <li>• The loan documents, forms and receipts used by NLMPL are in the vernacular; however, the same has not been reviewed by the board in the past one year.</li> <li>• The loan card issued to clients provides the complete repayment schedule with interest, principal, insurance and processing charges mentioned separately.</li> <li>• The branches maintained the formats in vernacular approved by the board.</li> <li>• Discussions with clients revealed that they or someone in their families were able to read and understand the text in documents, such as loan cards, loan agreements etc, shared by the company</li> <li>• The interest rate and charges applicable are communicated to the client in writing on a loan agreement. Almost all borrowers were aware of the amount and number of instalments they were required to pay.</li> <li>• Given a single product in its portfolio, NLMPL has a single, effective annual rate for all loans. The processing fees charged is 1.00% along with a GST of 18%, which is in line with the prescribed guidelines.</li> <li>• No instances of fine or penalty being levied or collected from the borrowers were observed. The borrowers also confirmed that no fine has been paid by them.</li> <li>• NLMPL has a board approved policy stating that no security deposit will be collected, or collateral will be obtained for loans meant to qualify under priority sector classification and company's position on the same has been reviewed by the board in the past year. The same has been documented in the operational manual as well. Interviewed branch managers were aware regarding the guidelines.</li> <li>• No instances of collateral or security deposit being taken from the borrowers came to notice during the field visit.</li> <li>• Any changes in its interest rate are documented through formal circulars and branches have access to the same. In most of the branches, the same was maintained on email.</li> <li>• NLMPL undertakes review of its margin quarterly or as prescribed by regulatory agencies. The company also gets compliance with RBI pricing guidelines certified by an independent CA agency on a quarterly basis.</li> <li>• Review of latest loan files revealed that the loans had been disbursed at the most recent rate of interest at the time of document collection and disbursement.</li> <li>• ICRA did not come across incidence of borrowers being charged processing fee in excess of 1%.</li> <li>• With only JLG loans, the MFI did not have any difference in the interest rates. It was charging 24.80% to its borrowers as per the loan cards and client files seen.</li> <li>• The internal audit report by an external CA agency tracks whether all clients receive the necessary loans documents.</li> <li>• The staff had received training regarding the documents to be provided to clients.</li> <li>• The company has a structured process of issuing acknowledgement and acceptance for every payment made by the client. However, these receipts are given at group/centre level. Majority of the borrowers stated that they received loan documents and are given receipts when repayments are deposited in branches</li> <li>• Recent financial data was available in public domain on the company's website</li> </ul>
<b>Weaknesses</b>
<ul style="list-style-type: none"> <li>• The MFI does not have a structured system of documenting the reasons for not giving loan to a borrower. However, in the loan files it attached the snapshot of CB report of its clients.</li> </ul>



**2. Client Protection**

**Strengths**

- NLMPL's board reviews the proportion of qualifying loan assets to total assets quarterly and the same are being verified by an independent CA certificate.
- The norms regarding loan size, loan tenure and turnaround times have been documented in operating manuals/ circulars.
- Internal audit report by an external CA agency keeps track of the following parameters and their compliance with RBI directions:
  - loan sizes of qualifying loan assets
  - loan tenure of qualifying loans
  - loan purpose of qualifying loans
  - income of borrowers
- No instances of the following were observed:
  - Loan size or tenure being in non-compliance with RBI directions.
  - Clients being deliberately made to pre-pay.
  - The MFI offering any un-approved product/service.
  - A party other than the MFI staff or client (and her family member), was involved in filling up her loan application.
  - MFI charging clients additionally for insurance, apart from premium payable.
  - Indebtedness of borrower was more than that stipulated by RBI.
  - Unauthorised sharing of client data by the MFI
- During interviews with borrowers, loan utilisation was found to be in line with RBI's directions. Most of the loans were taken for income generation purpose.
- There was consistency in repayment observed and repayment as per the loan contract among the client sample.
- NLMPL has a monthly repayment cycle and borrowers said that they were satisfied with the repayment frequency of loans.
- NLMPL has a documented policy regarding Aadhar card to be collected as mandatory identity proof. The copies of KYC documents collected from clients are verified by the branch manager after seeing the original. Not a single instance was observed where for a loan classified as qualifying microfinance loan, identity proof (with a verified with original declaration) had not been obtained. In addition, the board has also reviewed MFI's performance with regard to the KYC norms. In addition, the branch staff is aware of the KYC documents to be collected at the time of loan origination.
- NLMPL has a policy stating that any non-credit product offered will be voluntary for the client and would not be a precondition for loans and the same has been documented in its operational manuals.
- NLMPL provides insurance to its clients through IRDA approved agency - DHFL Pramerica. Review of insurance claims settled by the MFI revealed that all of the sample claims had been settled within a period of 45 days.
- NLMPL's loan application form enables it to record borrower's household income, expenses and indebtedness.
- The operational staff revealed that they had been trained on how to assess repayment capacity of borrowers which includes housing surveys, talking to neighbours and cash flow analysis done on the loan form.
- The MFI has documented guidelines regarding credit bureau checks to be performed on loan applications to check indebtedness of the client. The company has a policy as per which it can't lend as a third NBFC-MFI lender and can be a third lender in case of any or both of the loans received from any bank.
- During the 8 branch visits of the sampled MFI, most recent loan appraisal criteria of the MFI were found in the form of recent circulars.
- The maximum loan given by NLMPL under JLG loans does not exceed Rs 80,000 and sum total of all outstanding loans was less than Rs. 80,000. All the borrowers had loans from two or fewer lenders, including loans taken from the BC channel.
- NLMPL, as a policy, collects mandatory Aadhar card for all loan cycles. The same has been documented in circulars and manuals.
- The operational manual specifies guidelines for the following:
  - Informing the clients regarding the product and services of the MFI, particularly the interest rates and other costs
  - Collecting repayments
- The operational manual clearly specifies guidelines on conducting client meetings. The operational staff confirmed that they have received training on the following:



### Strengths

- Conducting client meetings
- Collecting repayments
- recovering overdue loans
- Borrowers reported that MFI staff arrives on time for client meetings and staff conduct is professional. Borrowers do not find the process of making repayments inconvenient or risky.
- The MFI staff confirmed that they had received training regarding the policy of not visiting borrowers at odd hours and how to behave with the clients.
- The sampled MFI branches had an employee code of conduct that clearly present guidelines to prevent unacceptable behaviour
- Interviews with borrowers revealed that the staff did not indulge in the following:
  - Abusive language or threats
  - Visiting borrowers at odd hours
- Internal audit report by an external CA agency tracks if borrowers get proper documents and the same has been reviewed by the MFI's Board. The staff confirmed that they had been trained on the same.
- Majority of the clients revealed that they receive accurate receipts for all transactions.
- NLMPL has a board approved policy of recovering delinquent loans. In addition, it has step-by-step guidelines for dealing with delinquent clients for different stages of default.
- Interviews with staff members revealed they were aware of the process to be followed with delinquent clients.
- The MFI takes back-up of digital data on a regular basis. MIS and IT departments require checking whether client data has been stored with adequate security. However, there was no evidence to suggest that client data has been shared without clients' consent being taken.
- The manuals specifically state that collection shortfall will not be recovered from employees (except in proven cases of fraud); however, none of the employees are made to pay for shortfall in collections.

### Weaknesses

- While most branch staff was aware of the RBI guidelines, some of them were not aware of the maximum loan sizes and loan tenure as prescribed by RBI. Nearly one-third of the branch staff interacted with were not aware of the RBI guidelines regarding maximum indebtedness of clients and procedure to be followed in case of an inaccurate credit bureau check. However, interaction with the staff indicated that such training was given to them.
- While the loan cards had income and expense analysis basis the RBI guidelines, in some of the cases the income levels and economic status was higher than the said RBI guidelines.
- The turnaround time for loan sanction and disbursement, indebtedness of the borrowers and exceptions in the credit bureau reports have not been reviewed by the board in the past one year. The exceptions in credit bureau reports was less than 1% as stated by the management.
- The internal audit checklist does not include any indicator regarding checking credit bureau reports or their validity; the same has not been stated explicitly but followed as per policy by NLMPL.
- NLMPL's incentive structure does not specify an upper limit for incentives related to monthly client enrolment targets which might result in weakening of credit culture.
- The company does not have a policy of carrying out credit bureau checks on a sample of clients after loan disbursement and the same have not been put before the board. However, the management indicated that sample branch visits and interaction with client was held but reporting of the same in future to the board shall help in improving the score.
- While permission had been obtained for the sharing client information for authorised purposes from borrowers, client awareness of the fact that their data can only be shared for authorized purposes was low.
- The internal audit checklist and internal management report does not review whether client data has been stored with adequate security.

### 3. Governance

#### Strengths

- All the board members have a sound reputation and all of them are actively involved in the decision making of the company.
- The board meets at least once every quarter and the minutes of the meetings are maintained by the MFI.
- Summary of key changes in the operational manual is provided to the Board of Directors.
- NLMPL's board consists of 6 directors of which 2 are independent directors
- The MFI transparently discloses CEO's compensation in its audited report.
- The company has a board approved policy on loan restructuring for clients facing repayment stress.
- The policies and procedure of the MFI and any subsequent changes to the same are approved by the board. The meeting agenda contains the key operational and financial information of the MFI.
- The MFI has an audit committee that directly reports to the board and the committee is headed by an independent director. The audit committee has reviewed the scope of internal audit and adequacy of the internal audit staff in the previous year.
- The audit committee has met three times over the past year. Minutes of the audit committee have been maintained.
- Audit of branches are carried out as per a predefined checklist at regular intervals to understand the gaps between stated and followed policies. Finding from such audits are recorded in branches and sent to Head Office through e-mail. Action taken report of the internal audit was available in the sample of branches visited.
- There were no adverse observations in the Auditor's report for the year 2017-18 regarding accounting standards followed by the MFI.

#### Weaknesses

- The Chairperson of the board is an executive of the company and not an independent person.
- The company does not have a documented policy on the constitution of the board stating the count of independent directors. However, out of the 6 directors, 2 were independent directors.
- While the company has a loan re-schedulement policy, the field staff was not aware of the practical aspect of the same as per the discussion during field visits.
- In a detailed list of internal audit parameters, satisfaction of the company's staff on the compensation was not covered.

### 4. Recruitment

#### Strengths

- NLMPL's board has reviewed its documented guidelines regarding recruitment at least once in the previous year. There are documented guidelines regarding recruitment in the Human Resources (HR) manual.
- NLMPL has a documented policy of seeking reference check from previous employer.
- NLMPL has a policy of providing notice period of at least one month, except for the cases in which the services are being terminated or some unavoidable personal reasons with a staff member.

#### Weaknesses

- While the company has documented guidelines for reference check for all employees, in most of the sample files checked, the same was missing. The company indicated that most of those cases were of freshers in which reference checks could not be obtained.
- Also, in very few cases as per the sample files checked, the MFI had responded to reference check requests.
- In around 50% of the sample files checked at the HO, no objection certificate (NOC) or relieving letter from another company was taken. Further, the company also has not given NOC and relieving letter to the
- NLMPL complies with Sa-dhan's code of conduct and thus restricts posting of new joiners at the same geography where they were associated with the previous organization (if recruited from an MFI); however, the company does not have any formal policy regarding the same.

**5. Client Education**

<b>Strengths</b>
<ul style="list-style-type: none"> <li>• NLMPL has documented process of raising client awareness on the choices and responsibilities regarding financial products and services given by the company. Most of the clients confirmed about such information given in the trainings at the time of enrolment.</li> <li>• The borrower's confirmed that no payment has been made for these trainings.</li> <li>• The operations manual mandates CGT (compulsory group training) and GRT (group recognition test) for all borrowers which include informing the borrower about the product, joint liability, meeting process, organisation policy, interest rates, fees and charges etc. The whole process takes three days to complete.</li> <li>• The staff members have received training on communication with new clients and the information to be shared with clients in CGT and GRT.</li> <li>• The staff members were trained by senior branch staff on the various processes to be followed including CGT and GRT and the disclosures to be made to the borrowers.</li> <li>• Internal audit checklist includes assessment of clients' awareness and understanding on aspects like interest rates and other charges, products, choices and responsibilities.</li> </ul>

<b>Weaknesses</b>
<ul style="list-style-type: none"> <li>• Although clients are informed about the charges/fee payable for availing the loan but as per our branch visits, the proportion of clients aware about the following were: <ul style="list-style-type: none"> <li>○ Annualized Interest rate - ~20%</li> <li>○ Processing fees - ~30%</li> <li>○ Insurance claim settlement process - ~50%</li> <li>○ Any other product/service -Not applicable</li> <li>○ Insurance charges - ~30%</li> </ul> </li> </ul>

**6. Feedback & Grievance Redressal**

<b>Strengths</b>
<ul style="list-style-type: none"> <li>• NLMPL has a formal grievance redressal as well as escalation mechanism displayed in branches and loan cards of borrowers.</li> <li>• The members of staff confirmed receiving training from seniors on the grievance redressal mechanism. The same is also part of the operational manual.</li> <li>• The company has a dedicated staff posted at HO, who maintains proper record of complaints received. Complaints are generally recorded at the HO through a telephone call.</li> <li>• The designated person maintains a log of complaints of the borrowers and presents the same to the senior management on at least monthly basis.</li> <li>• The borrowers were aware of the name of the MFI and the branch location.</li> <li>• The borrowers confirmed that the grievance redressal mechanism was explained to them during the loan disbursement, however, only 40% of the borrowers were aware of the process to be followed in case of any grievance except reaching out to the field officer and branch manager</li> <li>• Grievance redressal system set up by the MFI is displayed prominently in all of the sample branches visited.</li> <li>• There was a response when a surprise call was made on the number provided.</li> </ul>

<b>Weaknesses</b>
<ul style="list-style-type: none"> <li>• While the company has a formal process of grievance redressal and an escalation mechanism, it does not have formally stated timelines for the same.</li> <li>• The company has not given any documentary proof in the form of acknowledgement of complaint received, along with nature of complaint and expected time of resolution of such complaint, to the complainant.</li> <li>• NLMPL has designated a grievance redressal official, whose number is provided to all clients in their loan cards. However, only 40% clients were aware of the grievance redressal process.</li> <li>• Although NLMPL has a dedicated grievance redressal officer, it does not have a formal mechanism to issue complaint numbers/acknowledgement to the complainant.</li> <li>• In some of the branches, the company did not have the contact details of the SRO displayed for client</li> </ul>





**Weaknesses**

use. The same was missing on loan cards of all branches visited. As a result, none of the sample clients visited was aware of the same. Although the contact number of the SRO was displayed at some of the branches, the same has been mentioned in the new Loan Cards that shall be distributed among the borrowers for the new loan cycle.

**7. Data Sharing**

**Strengths**

- NLMPL shares data with all four credit bureaus in the format required by the respective agency.
- Consent from clients is taken in loan agreement regarding sharing of their data as per their loan forms, which are in vernacular
- NLMPL has provided data when called for by RBI or MFIN.

**Weaknesses**

- While the company has disclosed the latest financial data on its website, only operational data relating to number of branches with states was found.

## COCA Methodology

The Code of Conduct Assessment (COCA) tool was developed as a response to the need expressed in a meeting of stakeholders in Indian microfinance by the Small Industries Development Bank of India (SIDBI) and the World Bank in December 2009. The code of conduct dimensions were identified by reviewing the various norms for ethical finance. These included RBI's fair practices guidelines for Non-Banking Financial Companies, industry code of conduct (Sadhan-MFIN) and Smart Campaign's Client Protection Principles (CPP).

In 2016, need was felt to harmonize COCA to the most recent industry code of conduct and to standardize COCA tools of different rating/assessment agencies. This grading is based on the harmonized COCA tool. In the harmonized COCA tool, the dimensions were classified in three categories – highest order, higher order and building blocks. This grading is based on the harmonized COCA tool.

<b>Highest Order</b>	
Sensitive Indicators	
<b>Higher Order</b>	
Integrity & Ethical Behavior	
<b>Building Blocks</b>	
Governance	Client Protection, Recruitment
Transparency	Feedback/Grievance Redressal
Client Education	Data Sharing

Chart: COCA Indicators Framework

Number of indicators in each category is presented below

Higher Order Indicators	Number of Indicators
Integrity and Ethical Behaviour	32
Sensitive indicators	27
Building Blocks	Number of Indicators
Transparency	40
Client Protection	123
Governance	30
Recruitment	13
Client Education	14
Feedback & Grievance Redressal	25
Data Sharing	6
<b>Total</b>	<b>251</b>

### Methodology

The Code of Conduct exercise is spread over four to eight days. The first day is spent at the head office. The assessment team visits the branches over the next three to eight days. Depending upon the size and the operational area of the MFI, eight to fifteen

branches and between 120 and 300 clients are sampled for primary survey (except in cases where number of branches in an MFI is less than eight).

Sampling guidelines

The following is taken as the guideline to determine the sample size for a COCA exercise.

<b>MFI Size</b>	<b>No. of branches to be visited</b>	<b>No. of borrowers to be visited</b>
Small MFI (Less than 8 branches)	All branches	15 clients per branch covering minimum two centers.
Small/mid-size MFI (up to 2,50,000 borrowers)	8 – 10 branches (geographically distributed)	120-150 clients (15 clients per branch covering minimum two centers).
Large MFI (>2,50,000 borrowers)	12 – 15 branches (geographically distributed)	240-300 clients (20 clients per branch covering minimum two centers).
Large MFIs (Loan portfolio outstanding of Rs500 crore or more, irrespective of the number of borrowers)	18 – 20 branches (geographically distributed)	360-400 clients (20 clients per branch covering minimum two centers).

Code of Conduct Assessment exercise requires:

1. Discussions with key staff members and the senior management at the head office. particularly the senior operational management team as well as the human resources team. These discussions focus on key issues of the code of conduct identified above.
2. Review of policy documents and manuals at the head office. These are reviewed in order to assess the policy as well as documentation regarding important aspects of the code of conduct. The last audited financial statements will also be required.
3. Sampling of branches at the head office. The assessment team samples branches for review. The branches are chosen in across different states in case the MFI operates in more than one state. Care is exercised to include older branches as well as branches that are distant from the head office or the regional office. The sampling of the branches is performed at the head office of the MFI.
4. Discussions with the branch staff at the branch office. Discussions with branch managers and the field staff is carried out to assess their understanding of the key code of conduct principles.
5. Sampling of respondents in the selected branches. A judgmental sampling is performed on the MFI's clients by the assessment team to draw respondents from the interest group, in order to maximize the likelihood that instances of non-adherence can be detected.
6. Interview with the clients. Information from the clients is collected ideally during the group meetings. If this is not possible, visits are made to the clients' locations for collecting information.
7. Review of loan files at the branch office. This review focuses on loan appraisal performed before disbursing loans as well as the documents collected from the clients.

As part of this assessment, we visited eight branches of the MFI. The details of the branches visited are provided below.

S. No.	Branch	State	No of clients interviewed
1	Fatehganj	Uttar Pradesh	20
2	Lucknow	Uttar Pradesh	9
3	Mahmoodabad	Uttar Pradesh	12
4	Rampur Mathura	Uttar Pradesh	22
5	Danapur	Bihar	45
6	Paliganj	Bihar	20
7	Maner	Bihar	42
8	Koilwar	Bihar	50
<b>Total</b>			<b>220</b>